RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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GREENSPAN: Twice Greenspan warned that stock prices are perhaps too high, and each time the market reacted with a one-day "mini-panic." Then Greenspan received some criticism. Oops. So on March 5 the Fed chief did an about-face and opined, "If one looks at the long-run level, what we get is a not unreasonable level of prices if earnings forecasts, which the analysts are publishing, are accurate." Yeah, right Alan, and thanks for the brilliant analysis.

BULL MARKET: Up to this writing, every spate of weakness in the market has been quickly wiped out -- and prices then push higher. Until this pattern ends, there's only one conclusion -- the bull lives.

So saying, let's review my **"Big Four."** The closing high for the **Dow** was recorded on February 18 at **7067.46.** On the same day the **S&P 500** closed at a record high of **816.29.** The **advance-decline ratio** on the NYSE hit its record high on February 18 at **+4.67.** One big change -- on March 7 my **Primary Trend Index broke out to a new record high.**

Ah, now we have another **important test** of the bull. On March 5 the **D-J Transportation Average surged to a new record high, a high that has not yet been confirmed by the Industrials.** How important this non-confirmation is, remains to be seen. Confirmation would entail the Industrials rallying above its February 18 high of **7067.46.** If Industrials confirm, we'll receive the "all clear" signal. If Industrials stubbornly refuse to confirm -- trouble. But no need to guess, no need to predict -- let's just see if the Dow confirms.

Note: This non-confirmation is an interesting reversal in that over the past few years it has been the Dow that has led while we waited for the Transports to confirm. This is the first time that the Transports have led, leaving us waiting to see whether the lagging Dow will confirm.

Nasdaq: Perhaps the most interesting area of the market has been the Nasdaq, which is in what one observer termed "a stealth bear market." The fact is that a great many Nasdaq stocks have been hit hard, including the popular tech stocks (note: the Nasdaq is now down over 9% from its high of February 22).

It's also true that many mutual funds have been acting poorly (quite a few are down for the year, so far), and this is discussed in a later section of this Letter.

Conclusion: In the last Letter I wrote that I thought the stock market was moving into a "trading range." So far, the weakness in the Dow and the S&P has been counter-balanced by strength in the Transportation Average, and this action lends credence to the probability of a trading range.

Feb. 28 DJIA 6877.74; PTI 4816; A-D Ratio +4.02
Mar. 7 DJIA 7000.89; PTI 4834; A-D Ratio +4.58
Dow Yield: 1.93%; Dow Price/Earnings: 19.8
Dow 144-day MA: 6398; Dow 34-day MA: 6862
Dow Times Book Value: 5.23; PTI 89-day MA: 4764
Percentage of Undervalued Blue-chips: 3%
Gold 144-day MA: 372

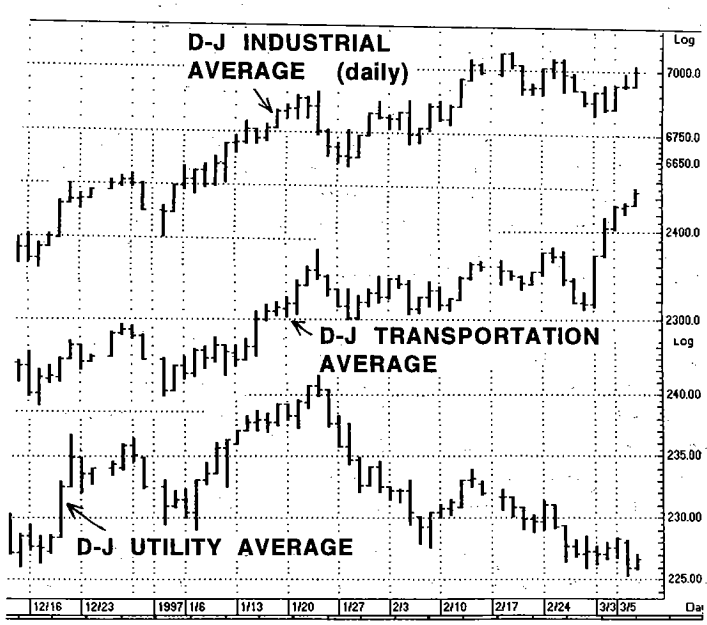
If the Dow and the S&P break out on the upside such action will obviously cancel the trading range thesis and suggest a new upward leg.

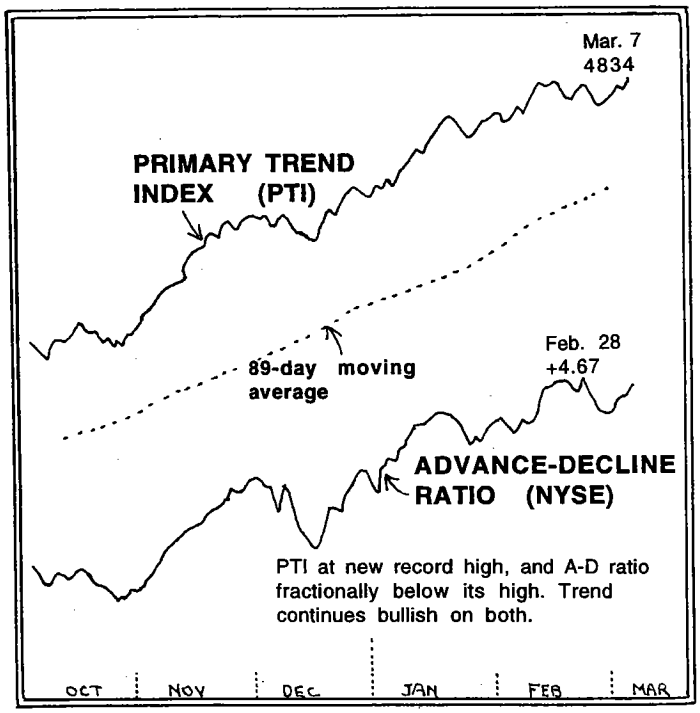
Conversely, breaking below the following levels would suggest further downside action -- 785 on the downside for the S&P and 6825 on the downside for the Dow -- plus, of course, a breakdown in my PTI. The BIG question as this is written -- how important were the February 18 peaks in the Dow and the S&P 500? We should know soon enough.

DIFFERENT? Is there anything different about today's market? Yes and no. The no is that this market, like every other market in history, is a function of supply and demand. To put it in its most simple terms, when demand is stronger than supply, the stock market goes up; when supply overpowers demand, the stock market goes down.

As far as differences between this market and past markets, sure there are differences. Today we have "program trading," today we have 7,500 assorted mutual funds, today we have global markets, today we have giant foreign exchange markets, and today we have massive and almost instant dissemination of news. Finally, and probably most important, we have computers and their offspring -- huge markets in derivatives, options and futures.

Here's another example of something new. Today we have 119 index funds, almost all "indexed" to the S&P 500. As





money pours into these index funds, the funds either buy an assortment of the stocks that make up the S&P 500 -- or they buy the S&P futures. Interestingly, we often see the market surge in the last half hour or hour of the trading session. Much of this is the buying of S&P futures as the index funds seek to adjust their positions based on the latest price of the cash S&P. And, of course, buying the futures lifts the market. By the same token, in a reaction or bear market, we will surely see the index funds reversing this process, which means selling the S&P futures in order to adjust their positions.

I've talked about "what's different" in today's market. Back in Letter #1211 I wrote a piece in which I stated that "most of the public doesn't realize this, but the S&P futures now run the stock market." This is such an important phenomenon in today's market that I want to repeat most of that piece again.

"Each S&P contract is now worth roughly $350,000. A professional trader's commission for a round trip (buy and sell) on an S&P option runs about $15. Now include the bid-and-asked spread and you're talking about buying and selling $350,000 worth of stock for roughly $120.

"All right, now let's say you want to buy and sell the same $350,000 worth of *actual stocks*. And let's say there's only an one-eighth bid-and-asked spread on both the buy and the sell side. And let's say you're paying a nickel a share when you buy and another nickel when you sell. That adds up to 35 cents a share for a round trip.

"Now let's say that the average price of a share you're dealing is $50. So in a $350,000 trade there are 7,000 individual shares. At 35 cents each, the cost (in and out) for $350,000 of stocks runs to **$2,450.** Compare this with a cost of **$120** for a round trip transaction on an S&P contract -- a contract which has the same value as your $350,000 worth of stocks. This difference in costs, as you can see, is HUGE.

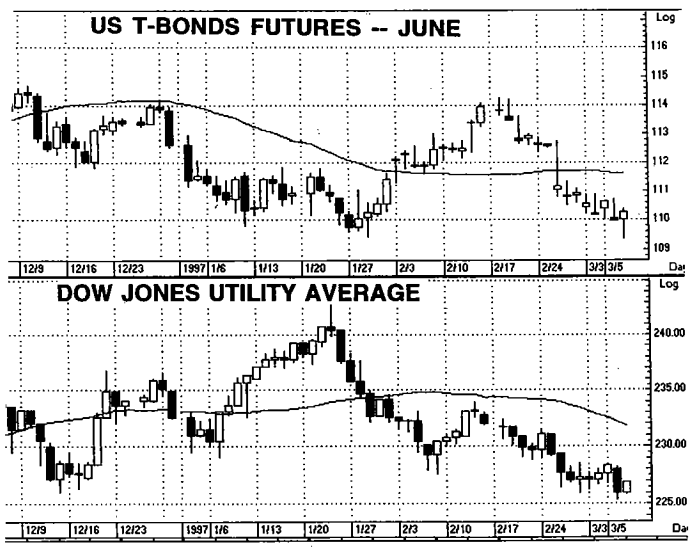
"And that's why professional traders who are bullish or bearish on the market buy and sell the S&P futures rather than buying the stocks. And that's why the S&P futures now CONTROL the market."

PRIMARY TREND: There's one caveat. When I say the S&P futures control the market, I mean they control the market on a daily basis. However, I'm **not referring to the great primary trend of the market.** When the primary trend is bullish, as it is now, the prevailing force is UP and traders in the S&Ps are simply positioning themselves daily in harmony with the bull trend.

But if a bear market hits, the traders will be selling the S&P futures as they seek to get in harmony with the prevailing primary bear trend. In other words, the S&P futures don't actually MAKE the trend, but what they do is provide an economic method of instantly getting with the trend.

INVESTMENT POSITION: The bull remains in the box. But my impression is that he's becoming a battered bull. He's been knocked to his knees numerous times -- but each time he rises, ready to fight another day. However, many stocks and stock groups are now well below their highs, and the bull's energy is slowly but surely being sapped.

Keep your eye on the highs listed in the second paragraph on page 1. The strength of the bull can be measured by the ability or inability of the bull to advance these indicators to new highs.



Two key areas to watch now are the **utilities** (remember them?) and the **bonds.** The top section of this chart shows the June Treasury bond futures, which are now well down from their December 3 high of 116. The recent intra-day low for the bond was recorded on January 29 at 108.30 -- and that's the level to watch. Why? Because 108.30 is the level that approximates a rate of 7% on the 30-year bond. If 108.30 is violated on the June contract, I believe there'll be trouble in the stock market. Consider this: yields of 7% on bonds vs. 1.9% on blue-chip stocks is a tough one for Wall Street to stomach.

As for the utilities, they have been in a downtrend since January 23, and last week the D-J Utility Average hit a low for the year. The Utility Average is also holding well below its 34-day moving average, which stands at 232.

As veteran readers of these Letters know, a joint decline by both bonds and utilities is always a bearish force on the market.

PREDICTIONS: In the last Letter I wrote that the hardest thing I've had to do over the years is **to believe what my Primary Trend Index (PTI) was saying.**

What's the second hardest thing to do? The second hardest thing I've had to do is to **ignore the predictions of experts** -- or at least take their output with skepticism and a "grain of salt."

Yep, as long as I've been in this business I've been listening to market predictions from the prevailing "experts of the day." And the truth -- I've learned to treat 95% of these predictions as worthless. The remaining 5% I treat not as predictions but simply as intellectually stimulating ideas.

Why does anyone pay attention to predictions? First, many of the predictions are from "big name" analysts or economists, and when these people "predict," their predictions receive wide publicity and credence. Second, people **hate uncertainty,** and when you're dealing with the stock market you're dealing with perpetual uncertainty. Predictions generate a feeling of certainty ("hey, this guy's an expert, he knows what he's talking about"), which is why the public is so fascinated with the prediction of experts.

When I say that 95% of all predictions are worthless, I'm not simply referring to the utterances of the "geniuses" who're quoted in your daily paper. Last month's issue (February) of *Smart Money* magazine (a Dow Jones publication) featured an article entitled, "What Have They Done For You Lately?" The article included predictions or "calls" by 10 of the "best" and most-widely publicized advisors in the nation, everybody from Goldman Sachs' Abbey Cohen to Elaine Garzarelli to Byron Wien to Ed Yardini to David Jones. Under each analyst's name the magazine publishes their "best call" and their "worst call." So what can we conclude from the listing in *Smart Money*? Well, the frustrating conclusion is that each of the analysts had good calls and bad calls. Where does that leave the reader? You just chose the prediction that suits you, and you cross your fingers.

Just for the fun of it (and as proof of what I was saying about predictions by the experts), I'm including a few classic and famous predictions by the experts of their day (courtesy of *Newsweek*).

Radio has no future.

LORD KELVIN, *Scottish mathematician and physicist, former president of the Royal Society, 1897*

Stocks have reached what looks like a permanently high plateau.

IRVING FISHER, *professor of economics, Yale University, Oct. 17, 1929*

I confess that in 1901, I said to my brother Orville that man would not fly for fifty years ... Ever since, I have distrusted myself and avoided all predictions.

WILBUR WRIGHT, *U.S. aviation pioneer, 1908*

I must confess that my imagination ... refuses to see any sort of submarine doing anything but suffocating its crew and floundering at sea.

H. G. WELLS, *British novelist, 1901*

Airplanes are interesting toys but of no military value.

Marshal FERDINAND FOCH, *French military strategist and future World War I commander, 1911*

Believe me, Germany is unable to wage war.

Former British prime minister DAVID LLOYD GEORGE, *Aug. 1, 1934*

Everything that can be invented has been invented.

CHARLES H. DUELL, *U.S. commissioner of patents, 1899*

Who the hell wants to hear actors talk?

HARRY M. WARNER, *Warner Brothers, 1927*

There is no reason for any individual to have a computer in their home.

KENNETH OLSEN, *president and founder of Digital Equipment Corp., 1977*

We don't like their sound. Groups of guitars are on the way out.

DECCA RECORDS *rejecting the Beatles, 1962*

[Television] won't be able to hold on to any market it captures after the first six months. People will soon get tired of staring at a plywood box every night.

DARRYL F. ZANUCK, *head of 20th Century-Fox, 1946*

Nobody now fears that a Japanese fleet could deal an unexpected blow on our Pacific possessions ... Radio makes surprise impossible.

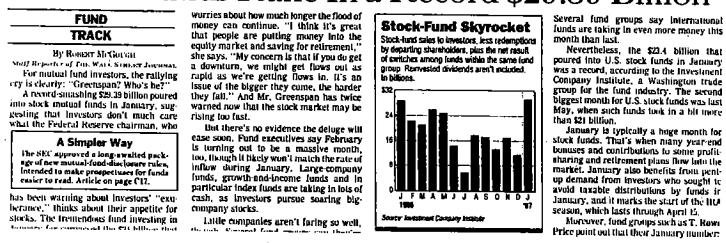
JOSEPHUS DANIELS, *former U.S. secretary of the navy, Oct. 16, 1922*

There's only one "forecaster" that I give real credence to -- and that's the market itself. The market may not be telling us something every day or even every week, but whatever it does tell us is far more important than the predictions of the best resident "experts."

Of course, one of the fascinating (and frustrating) things about the markets is that there is never any certainty. We're always dealing with probabilities. Well, I'll revise that; occasionally, very occasionally, the trend seems clear as crystal. But in the back of my mind, skeptic that I am, I always hear those two fateful phrases: (1) **"The market can do anything;"** and (2) **"The market always does what it's supposed to -- but never when."**

MUTUAL FUNDS: The fund situation is really fascinating. This headline appeared in the February 28 *WSJ*. The public, which is up to its eyeballs in funds, is continuing to pour money into mutual funds in record-smashing amounts.

Mutual Funds Rake In a Record $29.39 Billion


FUND TRACK

By Rodger McGowan
Staff Reporter of The Wall Street Journal

For mutual fund investors, the rallying cry is clearly: "Greenspan? Who's he?"

A record-smashing $29.39 billion poured into stock mutual funds in January, suggesting that investors don't much care what the Federal Reserve chairman, who has been warning about investors' "exuberance," thinks about their appetite for stocks. The relentless fund investing in January, for example, put the S&P 500 up a hefty 6.1% for the month, and the Dow Jones Industrial Average rose 5.7%.

Fund managers say the flood of money can continue. "I think it's great that people are putting money into the equity market and saving for retirement," she says. "My concern is that if you do get a downturn, we might get flows out as rapid as we're getting flows in. It's an issue of the bigger they come, the harder they fall." And Mr. Greenspan has twice warned now that the stock market may be rising too fast.

But there's no evidence the deluge will ease soon. Fund executives say February is turning out to be a massive month, too, though it likely won't match the rate of inflow during January. Large-company funds, growth-and-income funds and in particular index funds are taking in lots of cash, as investors pursue soaring big-company stocks.

Little companies aren't faring so well,

A Simpler Way

The SEC approved a long-awaited package of new mutual-fund-disclosure rules, intended to make prospectuses for funds easier to read. Article on page C17.

Stock-Fund Skyrocket

Stock-fund sales to investors, less redemptions by departing shareholders, plus the net result of switches among funds within the same fund group. Reinvested dividends aren't included. In billions.

Several fund groups say international funds are taking in even more money this month than last.

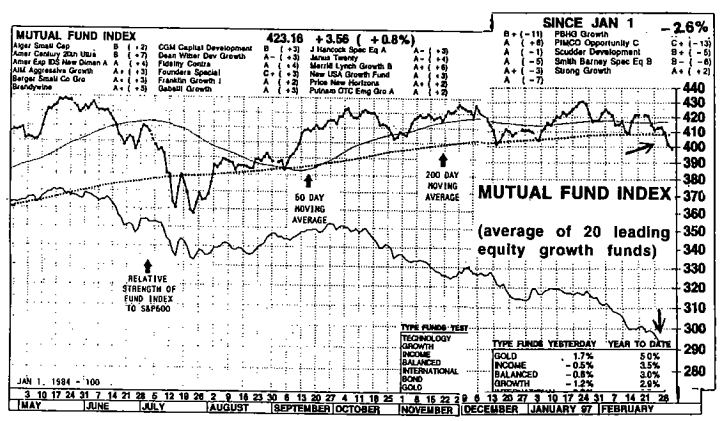
Nevertheless, the $23.4 billion that poured into U.S. stock funds in January was a record, according to the Investment Company Institute, a Washington trade group for the fund industry. The second biggest month for U.S. stock funds was last May, when such funds took in a bit more than $21 billion.

January is typically a huge month for stock funds. That's when many year-end bonuses and contributions to some profit-sharing and retirement plans flow into the market. January also benefits from pent-up demand from investors who sought to avoid taxable distributions by funds in January, and it marks the start of the IRA season, which lasts through April 15.

Moreover, fund groups such as T. Rowe Price point out that their January number

This is *Investor's Business Daily's* chart of their Mutual Fund Index. This index is an average of 20 leading growth equity mutual funds. Note that the index hit its high 10 months ago or last May. Since that time there have been three separate attacks (rallies) on the highs, and each rally has failed. But the latest decline in the index is important.

The index has now sunk below both its 50-day and its longer-term 200-day moving average (it broke below its 200-day moving average on February 28). In breaking below the 200-day MA, the index is telling us that the majority of investors who bought a


MUTUAL FUND INDEX
423.16 +3.56 (+0.8%)
SINCE JAN 1 -2.6%
50 DAY MOVING AVERAGE
200 DAY MOVING AVERAGE
RELATIVE STRENGTH OF FUND INDEX TO S&P500
MUTUAL FUND INDEX
(average of 20 leading equity growth funds)
TYPE FUNDS YESTERDAY YEAR TO DATE
GOLD 1.7% 5.0%
INCOME -0.5% 3.5%
BALANCED -0.8% 3.0%
GROWTH -1.2% 2.9%
JAN 1, 1984 = 100
MAY JUNE JULY AUGUST SEPTEMBER OCTOBER NOVEMBER DECEMBER JANUARY 97 FEBRUARY

mutual fund over the last 200 days (or 40 weeks) are probably now showing a loss on those funds.

Next, note that the relative strength of the Mutual Fund Index has hit a new multi-year low. Conclusion: the funds are having a tough time with most unable to keep up with the S&P 500 on the upside. Russell opinion -- the bearish trend of relative strength will continue, meaning that the funds will do worse than the S&P on the downside.

NOTES & QUOTES: According to a study commissioned by the National Association of Security Dealers, the percentage of Americans who own stocks has **doubled** in the past seven years, largely as a result of the popularity of mutual funds. Currently, about **43%** of Americans own shares in public companies, compared with 21% seven years ago.

* *

Merrill Lynch, in its Feb. 14 "Global Highlights Reports," writes, "Despite the market's remarkable advance, we think that the wealth effect is unlikely to boost consumer spending to any major extent." Then, interestingly, they add, "The record shows than an increase of $1,000 in consumer income translates into a spending increase of more than $900, while the same increase in consumer wealth boosts spending less than $100. Economy-watchers should note that the converse also holds true." **Russell comment:** This means that a $1,000 drop in consumer income would result in a drop of $900 in consumer spending, while a drop of $1,000 in consumer's wealth would result in a drop of $100 in consumer spending. In other words, consumers are much more sensitive to their income than they are to their levels of wealth.

* *

The Republicans want to limit investigations into the Democrats' "campaign contributions." The Democrats, on the other hand, want a complete investigation which would include Republican campaign contributions. The fact is that neither party wants a full investigation -- which throws the whole matter into the lap of Attorney General Janet Reno. Reno mumbles about "no credible evidence," and continues to look the other way. Corruption, it's taking on a life of its own in Washington.

* *

What's the best gauge of any nation's economic health? According to *The Economist,* it's labor productivity or the *value added* per hour of work. Of the big economies, the US is the undisputed leader, and US productivity is posted as 100 on the chart. The table tracks the trends of productivity over the past 35 years. As of 1995 most other countries were 20 to 30% lower than the US. Australia came up with the worst performance (maybe it's their famous proclivity for drinking beer). Note that Japan improved tremendously between 1960 and 1985, but then slowed down. France stood still between '85 and '95. Canada actually lost ground as did West Germany and the Netherlands. Britain shows steady improvement, which might have a lot to do with why Britain boasts the best economy in Europe at the present time.

Working like a dog

Labour productivity in manufacturing, value added per hour, United States=100

	1960	1985	1995
United States	100	100	100
Japan	19	69	73
W Germany	56	86	81
France	46	86	85
Britain	45	60	70
Canada	69	84	70
Australia	51	57	52
Netherlands	51	107	97
Sweden	50	87	90

* *

China will take over Hong Kong in July. Less advertised is the fact that China will take over from Portugal the city of Macao on the China coast -- in the year 1999. Said Victor Ng, a member of Macao's legislature, "We are going to transit more smoothly than Hong Kong because we have better relations between Portugal and China." Interestingly, Macao is the Monte Carlo of China, and much of the action is controlled by one man, Stanley Ho. Ho owns or holds stakes in much of Macao -- the hotels, the airport, the TV networks and the world largest jet-foil fleet which ferries gamblers from Hong Kong to Macao. The huge gaming monopoly that Ho has owned for 34 years is due to expire in 2001. Says Ho optimistically, "China wants to show it can do a good job in Macao and Hong Kong."

* *

The carmine red lips, a veiled cocktail hat, a pencil-thin suit, that was the "look" that the movie "Evita" was supposed to inspire in American women. It never happened. Some blamed the "failure" on the fact that Evita failed to win an Oscar nomination. In the meantime, thumbing through a half-dozen fashion magazines, I'd say that the "look" was basically sexy with a lot of see-through. So long, Evita, you're evidently on a different wave length.

* *

Gold production in South Africa has dropped to a 40-year low. On the other hand, Australian gold production has risen to record highs, with '96 output 15% over '95. The sheer amount of gold *trading* is startling, and London is finally releasing the statistics. In January of this year London cleared an average of $13 billion of gold EVERY DAY. London, by the way, is the international settlement center for gold bullion.

* *

Lefties comprise 10% of the population. Archaeological evidence suggests that has been true for thousands of years. But lefties tend to have shorter life spans than righties (probably because of accidents due to the fact that the world is built for righties). Question -- how is it that lefties have survived at all? Evolutionists in France has come up with the answer. In the December issue of *Proceedings of the Royal Society* they argue that lefties have survived because they are better fighters! In an extensive study of athletes, both amateur and pro, they note that left-handed athletes are over-represented -- particularly in sports where the opponent is confronted directly, such as fencing, boxing, cricket, baseball, ping-pong and tennis. The answer is simple -- in close combat righties have a difficult time coping with lefties (in world champion fencing, for instance, the quarter-finals featured 50% lefties).

* *

At what point do you sell your stocks and say "bye-bye" to the bull market? *Newsweek's* Alan Sloan (Feb. 24) supplies the answer in this "Dirty Dozen":

12. You can't get any work done because you're turning on CNBC every 15 minutes to check out the market.

11. Your mother calls to tell you she's got a crush on Louis Rukeyser.

10. You start dreaming about hot mutual funds instead of sex.

9. You feel the urge to ditch your day job and become a financial planner.

8. Canadian gold-mining shares suddenly seem too tame for you.

7. Your eyes don't glaze over when you read about the capital-gains-tax debate in Washington.

6. More than half the time at any party you attend is spent talking about mutual funds.

5. Your kids start bringing home stock tips from school.

4. You seriously consider putting next month's rent into stocks to make some quick bucks.

3. Your best friend says, "I'm not greedy; I just want to make 25 percent a year."

2. You feel inadequate because *you* made only 15 percent last year.

1. You see a bull on the cover of NEWSWEEK.

* *

What industry is fated to do the best in the new global economy? In my opinion, it will be the financial industry. With the rise of the huge Foreign Exchange market, with instant communications

around the world, with international finance a fact of life, the financial industry never had it so good. A stock that I've liked and recommended since 47 is the giant NationsBank (which is now a major trader of derivatives). The stock is now 120 and still acts well. A second long term pick of mine is American International.

* *

Trends: What's the world's current "hot" city? It was Paris in the '20s, it was New York in the post-War period, but now it's London. London is where it's happening. Headlines the daily *Women's Wear Daily*, "The London Boom, Can it Last?" The name designers are flooding London, and the paper talks about "an unparalleled retail boom. It is a retailing rush that has virtually eliminated large sites suitable for flagship locations, sent rents spiraling, and above all raising doubts as to whether any of the stores will ever be profitable." In the last 18 months Armani, DKNY, Calvin Klein, Guess, Versace, Hilfiger, Prada and Vuiton have opened large stores with Gucci and Escada slated to open soon. States a travelogue article in the *San Diego Union*, "London suddenly seems the place to make a bold move . . . Theaterland is booming. Blockbuster musicals . . . The most tangible example of London's phoenix-like rise is the explosion of new restaurants. Says the author of London's restaurant guide, 'There is more money pouring into the London restaurant business now than at any time since WWII.' And says Dom Phillips, editor of *Mixmag,* 'The London club scene has been extraordinary -- it's simply the best in the world.'"

* *

Meanwhile, if you're a newspaper or magazine reader, you'll note the trend towards an abundance of ladies in all states of undress. In fact, *Sports Illustrated* magazine has just put out a special "Bikini Issue." Says famed author Camille Paglia, "Advertising expresses what people want, and today flashing and flaunting and being provocative is OK." Says adman Della Famina, "Unfortunately, in this day and age the only thing that seems to be safe sex is watching."

* *

"Irrational exuberance" is evidently spreading out to emerging markets at record rates. Money is pouring into the market of Asia, Latin America and Europe, according to experts at a conference in Miami sponsored by the Federal Reserve of Atlanta. The reason -- low interest rates in the US, Japan and Europe are prompting lenders to look to smaller markets for higher yields. The competition for better yields is vicious, leading Jack Boorman of the IMF to state, "You have to wonder whether there isn't a mass psychology at work here." He compares the recent boom to the Third World lending by US banks during the 1970s.

* *

According to David Bickford with the Dutch company of Access Risk Management (they provide fraud protection to international banks), the earnings from organized crime now totals $1 trillion worldwide, with half being generated in the US. Money coming from street sales of drugs in the US amounts to $400 billion alone. He said the US mafia grossed criminal profits which made it the 20th richest organization in the world, "richer than 150 sovereign states." The Cali drug cartel in Columbia generated more than $320 billion in profits from cocaine . . . The US Office of Technology Assessment states that banks report all suspicious transactions, which could amount to 25% of daily transfers.

Russell comment: I often think back to my own boyhood. In the '30s and '40s juvenile crime was extremely rare. And it was unthinkable to, for instance, talk back to a police officer. Fights between boys were settled with our fists, and the streets, almost all the streets, were safe day and night. What happened? I think two phenomena: **(1)** The advent of World War II, which, I think, desensitized all of us who were in combat. **(2)** The rise of the youth culture, probably set off my Kerouac and the "Beats," Elvis Presley and the Beatles.

* *

China's Deng Xiaoping is dead at age 92, and 10,000 Chinese attended his funeral at the "Great Hall of the People." Opinions outside of China differed regarding Deng. Deng was an avid bridge player (in his initial exile from China, he honed his bridge skill by playing all four hands). Deng relished a croissant and a glass of milk (a habit he picked up in France as a youth). He was a chain smoker and was fond of keeping a spittoon at his feet in meetings with foreign dignitaries. According to Orville Schell's book, "Mandate of Heaven," Deng was "unsentimental and humorless, and he seems to have few qualms of conscience, and little compunction at ingratiating himself with others through convivial chatter." Said Henry Kissinger of Deng, the man who ruled China during the '80s and '90s, he was a "nasty little man." (Deng stood only five feet high, in his white socks which he loved.)

* *

Switzerland is undergoing its worst recession since WWII. But Switzerland keeps trying new social programs. After four years of debate, Swiss authorities have set up 17 zones of legal prostitution in the Swiss capital, Zurich. Prostitutes will be allowed to ply their trade legally between the hours of 7PM and 5AM. Switzerland has long adhered to the policy that everything is forbidden unless it is legally permitted.

* *

Doctors are in plentiful supply in the big cities, but not where they are needed most -- in America's small towns. A whopping 15% of all doctors are produced in New York and another 9% are produced in California. But now the government has come up with a plan to stem the output of doctors in certain parts of the nation. Just as the federal government has paid farmers not to produce certain crops, the government will, over the next six years, pay New York state hospitals $400 million not to train physicians. Said Dr. Alan Hillman, professor of health at the Univ. of Penn., "It's an amazing treatment of health care as a commodity -- like grain or meat or milk. I've never heard anything like this before. But I really can't find fault with it." Note: a letter to the *NY Times* last week added that maybe to save money the government should pay patients NOT to see their doctors. Mmmm.

* *

I've received letters and phone calls from all over the US and Canada for more information on chelation. Chelation, as you must know by now, is the controversial intravenous treatment to clear the arteries of plaque. For those interested in chelation I suggest you order the book, "Questions From the Heart," by Dr. Terry Chappell. The book answers 100 basic questions about chelation and how it works. Order at (800)766-8009; price for the book including shipping is $13.95.

* *

In my teens, I had dreams of becoming a botanist or horticulturist so I do know something about plants (cacti are my specialty). Theoretically, a plant can be immortal, since cuttings can be taken from a plant and rooted, and this process can be repeated endlessly, so that the plant, at least in theory, never dies. Now we learn that the DNA from an adult sheep was used to clone an exact copy of that sheep, and this opens up an amazing field. For the first time, a mammal has been reproduced not by joining a sperm and an egg but by inserting the DNA from a single cell of an adult sheep into the unfertilized egg of another sheep. But what if some powerful dictator decided to clone himself into say 10 carbon copies? Ah yes, morality comes into the picture, as do fantasies of Frankenstein or Dr. Moreau.

* *

Senate majority leader Trent Lott last week proposed a commission to "fix" the government's main inflation gauge, meaning a way of lowering the current Consumers Price Index. If this Index could be lowered by even 1% it would mean a savings to the government of tens of billions of dollars over the next five years. Without lowering the CPI, say many experts, the federal budget can never be balanced. Of course, what this would mean is lower inflation-adjusted increases for millions of Americans. **Russell comment**: There's a big difference between the inflation rate and the REAL cost of living. Taxes keep rising, school costs keep rising, transportation costs keep rising, and the average American continues to be squeezed by his actual costs. The result -- 60% of married women work in order to make ends meet.

* *

Now here's a question -- do you remember how the Republicans screamed when Clinton pushed through that huge tax increase? But with the Republicans controlling the Senate and the House, do you hear any Republicans talking about rescinding the hated Clinton tax increase? No, not a word.

Recovery: Following the 1929 crash, it took the Dow **302** months to get back to its high. Following the 1973-74 bear market, it took the Dow **118** months to get back to its high. Following the 1987 crash it took the Dow only **24** months for the Dow to get back to its high. This may explain why the public is less worried about a bear market.

* *

Global World: What's the fatal flaw in "globalization?" The answer is **oversupply.** Consider this: by the year 2000 the world's auto manufacturers will be able to produce 79 million vehicles a year. But the market will only be absorbing 58 million vehicles (unless there's a recession, in which case the world will absorb a lot less). The current argument is that China, India and much of Asia will become tremendous users of goods. But people forget that all of these nations intend to become BIG EXPORTERS of goods. Furthermore, factories are continuing to be built at break-neck pace around the world. And many of these factories will be staffed by low-wage workers. So ultimately globalization may not be a great boon to the developed nations (already, for instance, our negative trade balance with China has become a major problem -- and remember, China was supposed to be a huge new source of demand).

* *

Note: the biggest sports-shoe factory in the world, the Yue Yuan complex, located in southern China, has become a symbol of the economic revolution now under way. The factory employs 40,000 workers, 70% of them women. The factory produces shoes for Nike, Reebok, Adidas, Puma, LA Gear and others. In June of last year Goldman Sachs invested $85 million in Yue Yuan, which is listed on the Hong Kong exchange.

* *

China is building up an inventory of US bonds. In 1993 China had $4.6 billion of US bonds. By '95 its holdings had increased to $34.9 billion. The latest figure shows China holding $43.2 billion of US Treasuries (this for the end of '96).

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The new "cheap" Japanese yen is having its effect. In January Japanese auto imports jumped 75% over January a year ago. Writes the *Christian Science Monitor* (Feb. 28), "Japan's latest drive threatens US jobs and profits, according to the Automobile Manufacturers Assoc. . . . Japanese automakers have boosted exports to the US so much that they are loading cars onto cold-storage ships built to carry fruit and vegetables. Once stateside, the vehicles are selling faster than US cars."

* *

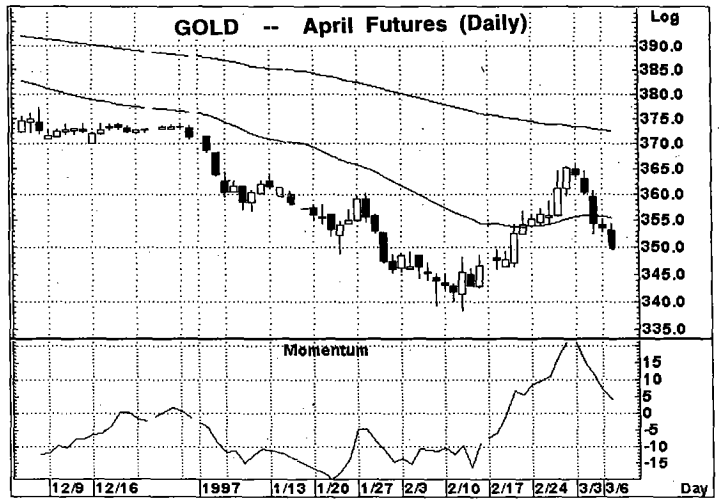
GOLD: Disinterest in gold? Gold an antique? You wouldn't know it from the volume of bullion traded each day. The London Bullion Market Association (LBMA) has finally released figures on gold trading, and the numbers are a bit of a shocker. In January, bullion trading averaged *ten billion dollars a day* in London. One LBMA trader indicated that trading worldwide might be three to five times that amount. As the *Elliott Wave Theorist* noted, "To put this into perspective, last fall's much ballyhooed Dutch central bank's sale of 300 tonnes of gold represented about one-tenth of one day's global trading volume." So much for the thesis that gold is going out of the system.

Last week much was made of the Swiss central bank's announcement that it would be selling 400 metric tons of gold over the next 10 years as part of a fund to aid Holocaust victims. The *WSJ* (March 6) promptly labeled the seven-dollar sell-off in gold as the end of the "three-week bull market."

Now let's examine the price action of gold. I'm showing a chart of the April gold futures. From an extreme low of 338.5 struck on February 12, June gold rallied to a high of 366 on March 3. As you can see (lower part of the chart), gold momentum hit a high of 21.9 (13-day rate of change) which was clearly excessive. Next came the inevitable correction.

On March 5 gold came down and broke below its 34-day moving average, which now stands at 355. Obviously, it would have been an outstanding sign of strength if gold, following its initial surge, could have held ABOVE its 34-day moving average on the correction -- but that just didn't happen.

The test of gold will now be whether gold can hold at least half its gains and then rally back above its 34-day moving average. In the meantime, my guess is that at worst -- we've seen THE low for gold.



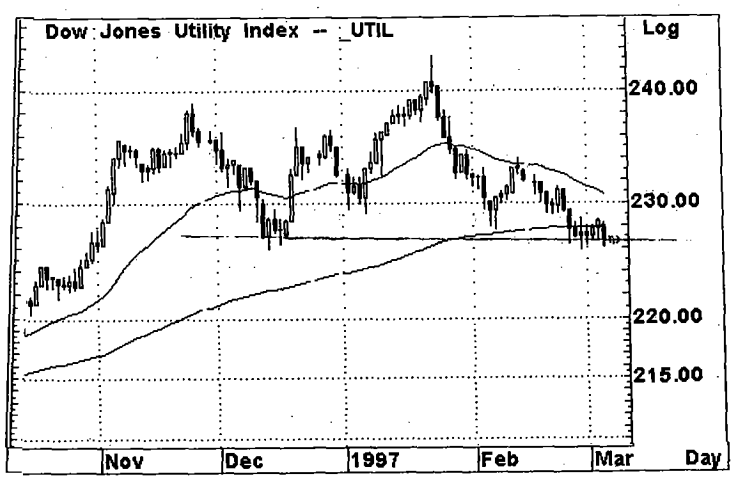
LATE NOTES: Nobody seems to be noticing what's happening in the utility area. But when there's dramatic action in an important segment of the market and nobody's looking, I'm always interested.

I mentioned utilities and bonds in the Investment Position box, but I want to say more about utilities. Historically, the Utility Average has often turned down ahead of the rest of the market, sometimes very far ahead. This daily Utility Average chart is worth studying. The average topped out on January 22 of this year at a closing price of **240.85.** Since then it has been mostly down hill.

The pattern has taken the form of a huge "head-and-shoulders" top. Last week the Utility Average broke to a new low for the year, below the '96 December low of 227.22. The Utilities have also broken below their long-term or 144-day moving average, which now stands at 228.

A second problem sector is the Nasdaq. From its January 22 high of 925, the Nasdaq 100 (i.e., the 100 major Nasdaq stocks) has now declined over 10%. A persistent continuation of this decline could impact on the entire stock market.

So we have a mixed bag here -- (1) a weak Utility Average; (2) a very weak Nasdaq; (3) a new high in my PTI; (4) a new high in the D-J Transports UNCONFIRMED by either the D-J Industrial Average or the S&P 500 (confirmation would entail a Dow high above **7067.46** and a S&P high above **816.29**).



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